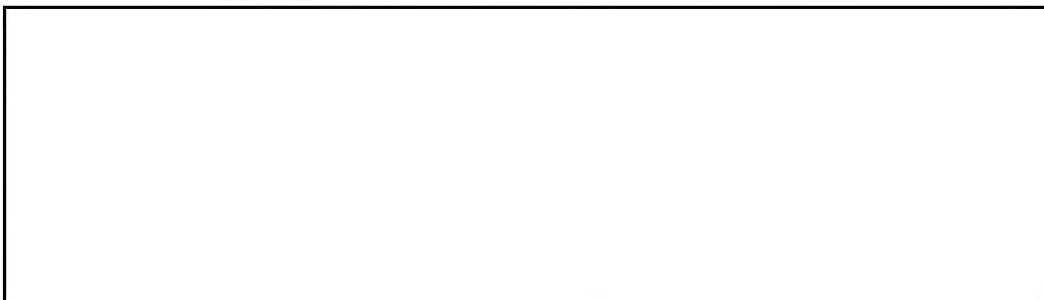


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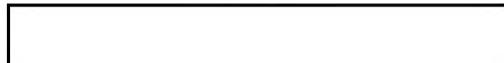
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Cypriot Talks Resume in Vienna

The second round of Cypriot intercommunal talks aimed at securing a negotiated settlement commences tomorrow in Vienna with no major breakthrough in sight.

Prospects that Greek Cypriot negotiator Clerides and Turkish Cypriot negotiator Denktash might come to grips with major issues in Vienna dimmed after the experts' committee--commissioned at the first Vienna round in early May to examine the powers of the central government in the proposed federation--failed to reach agreement. Each side blamed the other for the failure and the charges of bad faith may be repeated in Vienna.

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Despite misgivings about the Vienna talks, the Turkish side will probably try to give them the appearance of movement. Ankara wants to avoid blame for the lack of progress when UN Secretary General Waldheim--under whose auspices the talks are being held--reports to the Security Council on June 15. The Turks also

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are anxious to maintain the favorable atmosphere generated at the Brussels meeting between Demirel and Greek Prime Minister Karamanlis and fear that it may be quickly dissipated by Turkish Cypriot intransigence in Vienna. Denktash may therefore agree, at least in principle, to make a conciliatory gesture.

For his part, Clerides will continue to press Denktash to take a position on outstanding issues. While the Greek Cypriot negotiator will try to get meaningful concessions from Denktash, he will hesitate to accept token gestures which may assist the Turkish case at the forthcoming Security Council debate over Cyprus. The Greek Cypriots will probably urge the Council to pass a resolution strongly condemning Turkey, in accord with their policy of exerting pressure on the Turks by trying to isolate them in the international community.

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Austrian-Yugoslav Relations Improve

The strained relations between Vienna and Belgrade are relaxing and the Austrian Ambassador to Yugoslavia may return soon. The ambassador was called home last month after Belgrade publically criticized Vienna's policies toward Slavic minorities on the eve of Austrian celebrations commemorating the twentieth anniversary of the State Treaty.

A Yugoslav delegation will visit Vienna soon to resume bilateral discussions over the restoration of Yugoslav historical records and artifacts confiscated by the Nazis and brought to Austria in World War II. Although Yugoslav press commentary about Austria continues mixed, the recent announcement of the delegation, along with the continuance of bilateral talks aimed at improving educational opportunities for Yugoslav guest workers in Austria, reflects the desire of both governments to bury the hatchet.

The Embassy in Belgrade suggested that the Yugoslavs may want to play down the dispute now that the Treaty celebrations are over and the Yugoslav tourist season has begun.

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EC Approves State Aid to UK and French  
Automotive Industries

The EC Commission ruled last week that large French and British government loans to rescue the near-bankrupt Citroen and Leyland automotive firms do not contravene EC regulations.

The EEC treaty specifies that the member states must give the Commission advance notice about providing state funds to private industries, in order to ensure that competition within the community is not thereby distorted. The Commission approved the French and British plans on the basis that they are genuine improvement efforts and not attempts to bail out non-competitive companies.

This formulation is probably largely face-saving, since the Commission had little or no choice but to give its approval, given the importance of the industries, the number of employees involved, and the blow to national prestige should the firms have gone under. Undoubtedly, both Paris and London would have raised the question in an EC Council--which can overrule the Commission, however, only by unanimous vote--had the Commission tried to block the subsidies.

For France, the EC action was post facto; Paris advised Brussels only after the government had agreed last December to lend Citroen--France's largest automobile producer--one billion francs (over \$200 million) to pay off 800 million francs in debts and to facilitate an extensive centralization of automotive production in France. Citroen's plight came about as a result of poor management and inappropriate production programs.

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British Leyland--the UK's largest automotive manufacturer and the only major one not a US subsidiary--has been in bad shape for some time. Under the government rescue plan, it will acquire majority participation in the firm for 200 million pounds; it will also provide financial guarantees for 200 million and will loan the company 500 million at normal interest rates (a total of about \$370 million). The US Embassy has questioned whether the action will help over the longer run in view of the company's many acute problems, including obsolete facilities, management's reluctance to face labor unions over chaotic industrial relations, and a basic need to greatly increase productivity.

The Commission's announcement came at a crucial moment for London--just before tomorrow's national referendum on EC membership. The favorable action is a boon to the pro-EC forces, who have been trying to counter the anti-marketeers' argument that the EC's powers of supervision over state aid could jeopardize national control over industrial and regional policies. The whole affair is a reminder, however, of the extensive powers that Brussels has, in theory at least, over member-state economic plans. [redacted]

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ANNEXFrench President Giscard's First Year

The verdict on French president Valery Giscard d'Estaing's first year in office is generally positive, but he has left the harder tasks for the remaining six years of his term. There is no doubt of his determination to deal with France's problems and his competence, but Giscard has yet to be tested in a tough situation. Perhaps the most difficult challenge Giscard faces is to follow through on his campaign pledge to reduce the nation's profound social and economic inequalities, now mainly beneficial to his most conservative supporters.

Presidential Style

The president realizes that before he can hope to bring about fundamental changes to make the French system more flexible and liberal, he must change popular attitudes. If he is still far from breaking down the divisions in French society, his style of government is at least beginning to have a favorable impact.

Giscard's relative youth--he is 49--and vigor, his highly effective public manner, intellectual and technical authority, have all left their mark on an electorate dulled by the stuffiness, age and ill-health of his predecessors and ready for new ideas. Giscard's monthly televised chats in particular have conveyed the welcome impression of taking the citizenry into his confidence on issues important to them even if he cannot

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The left opposition recognizes the president's success in appealing to the interests of a broad spectrum of the electorate and in undercutting them by adopting some of the left's programs. Giscard's critics on both the right and left say that he is only trying to dazzle the country with public relations displays to hide his failure to tackle the hard problems facing France. There is no doubt that Giscard is responding to a widespread desire for a new relationship between the leader and the led in France, but this had translated into only a slight rise in his personal popularity in opinion polls until the burst of anniversary publicity pushed his support up six percent to a record 59 percent of those polled.

#### Political Base

Few Frenchmen would have predicted a year ago that Giscard would be able to hold a disparate majority firmly in line, keep the Gaullists subordinate and eliminate the barons' dominance, tie the centrists firmly to himself while reducing their leaders' power, further isolate the Communists and make the left look impotent, while moving ahead with a new approach to domestic and foreign affairs.

Because these successes will not necessarily translate into votes for Giscard's followers, the president and the interior minister, who heads the president's political party, appear to be inclined to let the assembly serve its full term until March 1978. This will allow the party time to build its strength. It now lacks the organization and grass roots support it would need to reduce the Gaullists' numerical dominance of the governing majority. Giscard's Independent Republicans hold 64 assembly seats; the Gaullists about 170. The government also hopes to win over

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by its reforms, voters who have supported the moderate left.

#### Reforms Planned

With legislative elections three years away and the opposition in disarray, Giscard has a long breathing spell to develop and implement his programs. In terms of social projects, his government has already accomplished more than Pompidou did in five years. Giscard has lowered the voting age from 21 to 18-- even though opinion polls show youth is overwhelmingly pro-left, adopted a far-reaching unemployment compensation program, liberalized abortion and contraception, broadened social security coverage, and relaxed controls somewhat on the state-controlled television and radio. A bill just passed by the assembly will noticeably liberalize divorce laws. The government is also taking a hard look at other problems: the fiscal system, national conscription, prisons and urbanization. Many of these issues are only being studied and money is short, but at least the government has publicly shown that it is questioning the system.

To his critics, the president's reforms have not been all that impressive. They have reduced tensions and loosened the system in some places, but France's profound inequalities-- such as the gap between the rich and poor which is the widest in the EC--remain unaltered. The critics question how far the government will go toward a more fair distribution of income and opportunities.

The French tax structure is unfair, but Giscard has decided to go slow on a bill that would provide radical increases in capital gains taxes, put sharp restrictions on urban land speculation and increase the now minimal real estate taxes. This measure

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will probably provoke heated debate in the assembly when it comes up later this month, but a compromise text is expected to pass. He has still to come up with proposals to revamp the regressive income tax rates; plans to modify some other tax benefits accruing to higher income families have been abandoned. Such changes would bite heavily into the incomes of Giscard's half of the electorate.

Other equally difficult issues--the out-moded and rigid educational system and worker-employer relations in particular--are still being chewed over in the ministries. When and if they are implemented, reforms in those areas also would strike directly at the vested interests of the president's supporters as well as reorient French society. The president seems willing to take the first steps which will enable French society to break out of the straight jacket in which it has been confined for so long, but he is not likely to move as fast as many of those whose votes he hopes to woo from the moderate left would like.

#### The Economy

When Giscard came to power prices in France were rising at an annual rate of 17 percent and the trade balance was in heavy deficit. He quickly announced a broad policy designed to slow the growth of internal demand. The inflation rate has declined to about ten percent; the government's goal is six percent this year. Unemployment, now at a post-war high of just over five percent is expected to continue to rise.

Giscard began a series of measures last December selectively to stimulate the economy, but he has resisted calls for broad fiscal measures to stimulate consumption.

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His strategy is to encourage steady growth while keeping the brakes on in order to insure that when the economy enters a full recovery inflation will not accelerate.

If this policy succeeds, France will enjoy price stability which compares favorably with its EC partners, a strong balance of payments position, and a real economic growth rate among the highest in West Europe. Giscard's hopes are pinned to the assumption that the current recession has or will soon reach bottom and that a recovery will begin this fall. If not, he will face a difficult choice between political and social pressures and the application of potentially inflationary countermeasures.

#### Foreign Policy

The president's references to a "relaxed France" in the "world such as it is" symbolize his conciliatory approach to foreign policy. He has decided to avoid the dazzling displays of his Gaullist predecessors and has instead adopted a pragmatic, unemotional style that maintains national dignity and independence.

All this has produced a more open attitude, but not necessarily any major policy realignments, in relations with the US, NATO, and France's West European allies. Giscard has expanded French interests in the Middle East by establishing contacts with Yasir Arafat, supporting a Palestinian presence at the UN, and lifting the arms embargo against the Middle East belligerents. He has also tried to strengthen France's ties with the third world, particularly the raw materials producers, by acting as broker between producers and consumers. Giscard's ill-timed energy conference proposal and his unsuccessful attempt to set up a coalition government in South Vietnam in the last days before the fall of Saigon have been his government's most obvious failures.

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